

# Weekly Market View



**Sustained recovery in risk assets depends on how quickly economies can restart as the COVID-19 outbreak peaks. Germany's decision to gradually re-open is a positive signal**

**Equities:** The rally in equities from 23 March lows, despite dismal Q1 earnings, indicates investors are looking ahead to a profit recovery by H2 2020

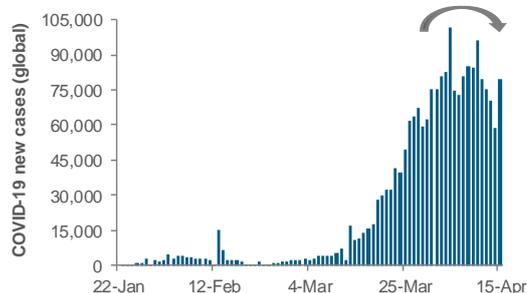
**Bonds:** The US corporate bond rally following the Fed's backstop has made High Yield bonds unattractive; we prefer EM/Asia USD bonds instead

**FX:** SGD, INR, ZAR weakness likely to extend near-term

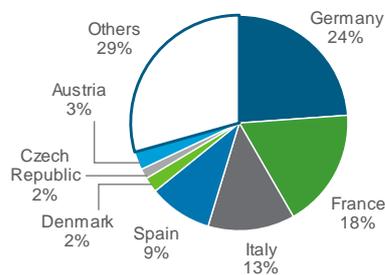
## Chart of the week: Stock valuations rise again as COVID-19 peaks

COVID-19 daily new cases worldwide; EU members (coloured) which plan to ease lockdowns by share of EU GDP; S&P500 index P/E ratio

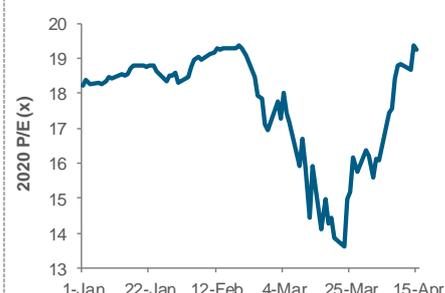
COVID-19 New Cases (Global)



EU members (coloured) to re-open



S&P500 2020 forward P/E ratio (x)



Source: Johns Hopkins University, Bloomberg, FactSet, Standard Chartered

## Editorial

### After the rebound?

The 22% rebound in global equities since the 23 March low means stocks have recovered almost half the losses from their record highs. We believe the rebound has mainly been driven by a gradual revival in risk sentiment (driving P/E higher) as a result of: **1) Peaking of new COVID-19 cases in US/Europe:** This has enabled more EU members to consider gradually restarting economic activities. Germany's decision this week to reopen is significant, in our view, given the economy's size and its importance in global supply chains; **2) Swift, unprecedented policy stimulus:** The EU's EUR 540bn package and the Fed's USD 2.3trn funding plan added to earlier stimulus. For the EU, the decision likely signals the first tentative step towards members sharing the region's fiscal burden. The Fed's decision to expand corporate bond purchases to some High Yield (HY) issuers helped lower bond yield premiums. In China, the PBoC cut its medium-term lending rates, while credit growth accelerated in March.

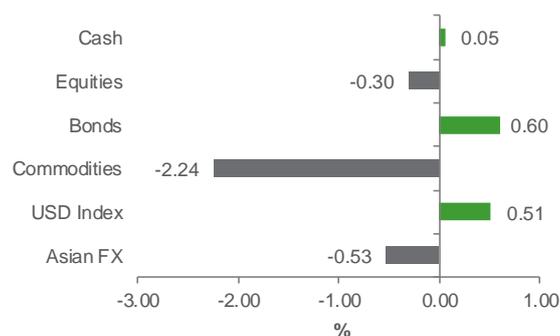
Against these constructive drivers, we weigh the risks: **1) Higher valuations:** The S&P500 index P/E ratio is back above 19x expected earnings for 2020, where it was prior to the market slump. This is typical in a recession as earnings are downgraded; **2) Weak economic and earnings data:** The sharper-than-expected drop in US retail sales and industrial production and continued surge in jobless claims suggest the impact of the lockdowns is being felt across services and industrial sectors. The IMF, while sharply downgrading 2020 global growth, warned of the possibility of a prolonged downturn, especially in Emerging Markets. This raises the risk of more earnings downgrades.

Together with signs that retail investors have capitulated and fund manager cash holdings are elevated (both contrarian signals), the above on balance suggests the low we saw on 23 March (18% below today's level) is likely to be the low of the cycle. However, the slow opening up of economies will keep the risk of defaults and bankruptcies elevated, which means equity markets are likely to weaken in the short term unless more policy measures are taken to credibly address this threat.

In pages 3-6, we discuss in detail the factors we are watching and answer client questions on near-term strategies across asset classes.

**Global equities consolidated, bonds and the USD rose and commodities pulled back amid concerns that any economic recovery could be prolonged as countries gradually relax lockdowns**

Benchmark market performance w/w\*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered

\*Week of 09 April 2020 to 17 April 2020

**US and Asia ex-Japan equity market technicals remained positive, while US Treasury yield technicals were negative**

Technical indicators for key markets

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,800	2,640	2,940	↑
STOXX 50	2,812	2,693	2,990	↓
FTSE 100	5,628	5,478	5,900	↓
Nikkei 225	19,290	18,400	20,300	↔
Shanghai Comp	2,820	2,720	2,880	→
Hang Seng	24,006	23,250	25,000	↑
MSCI Asia ex-Japan	587	560	610	↔
MSCI EM	888	820	930	↔
Brent (ICE)	28	26	36	→
Gold	1,716	1,650	1,750	↑
UST 10Y Yield	0.66	0.30	1.27	↓

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

## Factors to watch

### COVID-19 outbreak appears to have peaked in the US, EU

New daily cases of COVID-19 showed signs of a peak in major global hotspots, notably in New York, the epicentre of the crisis in the US. New cases have declined in recent weeks across Europe, including the hotspots of Italy and Spain. However, the global daily death rates have risen, led by the US. This warrants attention as a continued rise could force governments to extend the economic lockdowns now in place. The number of new cases have risen lately in parts of Asia, notably in Singapore and Japan (forcing PM Abe to impose a national emergency).

### Germany latest to relax economic lockdown

As the outbreak peaks in Europe, Germany has announced plans to allow some shops to reopen next week and schools to restart from 4 May. This follows plans by other European countries to lift restrictions in the coming weeks. Germany's plans are most significant, in our view, given its economic weight and importance in global supply chains. However, its exit plan suggests only a gradual return of economic activity staggered across economic sectors and regions. This strategy is likely to be adopted by other parts of Europe and US states (where President Trump unveiled guidelines for a gradual re-opening from May). A long-drawn-out exit strategy raises the risk of a longer economic downturn than currently expected. This was signalled by the IMF this week as it downgraded 2020 growth forecasts for the US (to -5.9%), Euro area (-7.5%) and China (+1.2%), which were lower than consensus estimates.

### Europe, the US, China step up stimulus

EU policymakers overcame initial opposition to approve a EUR 540bn spending package. While the measures stop short of enabling the EU to sell a common bond to fund the plan, we see the new measures as a virtual gateway [see explanation on the right] for EU members to share the region's debt burden, easing pressure on the economically weaker members. This could be put to use if there is a need for greater stimulus.

In the US, the Fed's USD 2.3trn funding plan included a USD 600bn plan for long-term lending to small businesses. This is timely given an existing plan for the sector was close to being exhausted. The Fed's decision to buy bonds of companies that were recently downgraded from Investment Grade (IG) to High Yield (HY) relieves worries that these 'fallen angels' could overwhelm the HY bond market.

China, too, has stepped up stimulus, with the PBoC cutting its medium-term lending rate by 20bps. Total lending growth accelerated to 11.5% in March after remaining stable at 10.7% in the previous four months. PBoC's recent moves and increased borrowing quota for local governments to finance infrastructure is a sign authorities are stepping up plans to revive domestic demand to offset the global downturn after growth contracted in Q1 (-6.8% y/y) for the first time in four decades.

### Crude oil drops despite OPEC output cut agreement

WTI crude oil prices hit a new low this week despite efforts by OPEC+ members and G20 to restrain production. OPEC+ agreed to cut output by 9.7mbd (vs 4.2mbd in 2008). We believe the proposal is ambitious and will take time to materialise. Compliance among members is also likely to be weak. It is highly probable that the actual impact of the efforts will fall short of what is required to offset further demand weakness in the next few weeks. While lower oil prices are positive for household disposable incomes, especially in the middle of a recession, they are likely to increase the stress on the energy sector.

### US retail sales and industrial output, which plunged in March, could see a recovery if lockdowns are relaxed in the coming months

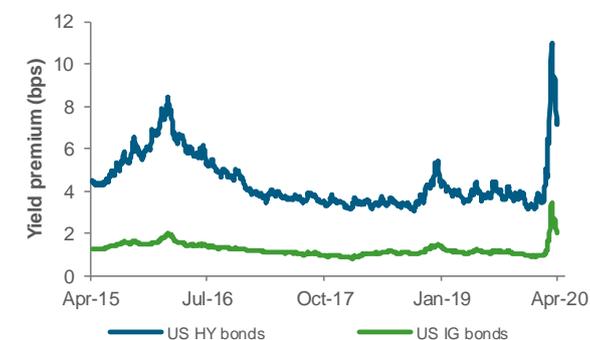
US retail sales, excluding gasoline; industrial production



Source: Bloomberg; Standard Chartered

### Fed's decision to buy corporate bonds, including some HY debt, has helped lower yield premiums

Yield premium over Treasuries: US IG and US HY bonds

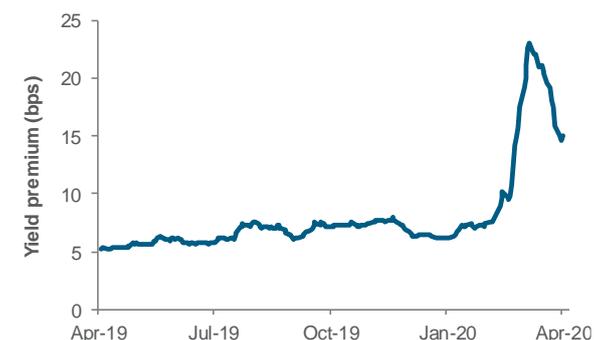


Source: Bloomberg; Standard Chartered

[This indirect method of mutualisation of EU debt could be through the ECB buying unlimited amount of bonds from member states who have availed of funds from the European Stability Mechanism, thus virtually sharing the debt burden among member states.]

### US energy sector credit stress has eased lately on the back of policy stimulus, though a sustained decline in crude oil prices could reverse the trend

Yield premium on US energy sector HY bonds



Source: Bloomberg, Standard Chartered

## Top client questions

### Q US earnings fell sharply in Q1 20, but the S&P500 is up 27% from the March low. How do we square the circle?

Consensus expectations for S&P500 earnings in Q1 20 is for a decline of 13%, followed by an even sharper fall of 25% in Q2 20. Despite this dramatic decline in expectations, the index has rallied 27% from the March low. In our view, drivers of the shift in investor sentiment include (i) the unprecedented CARE package from the US government and (ii) the Fed's decision to include some High Yield (HY) bonds in its bond purchase programs, with a focus on bonds of companies recently downgraded from IG to HY. This has arguably reduced the risk of insolvency among corporates amid a deluge of recently-downgraded companies entering the HY bond market.

We prefer US equities on a 9- to 12-month time horizon. However, the 27% rally from the March low combined with reduced earnings expectations imply S&P500 2020 P/E valuations have returned to the February high above 19x. This appears unrealistically high given the magnitude of the recession facing the US economy and the decline in earnings forecast for 2020. From a technical perspective, the S&P500 faces resistance at 2,795, the 50% retracement level of the February-March decline, and a second resistance at 3,000, which is the 200-day moving average. There is support at the early-April low of 2,447.

While expectations for the Q1 earnings season are downbeat, the recent rally in the S&P500 is likely a signal investors are expecting a H2 20 recovery. Nevertheless, there is a risk of negative surprises in select sectors. Consensus expectations for energy, a less preferred sector, is for a 56% decline in Q1 earnings due to the collapse in demand. To put this in context, at the start of January, investors were expecting 27% growth in Q1 earnings. The US technology sector, which is preferred, is expected to witness a 2% increase in Q1 earnings, reflecting the resilience of the sector's business model and the surge in demand for cloud services and software.

### Q Is it an appropriate time to increase allocation to gold?

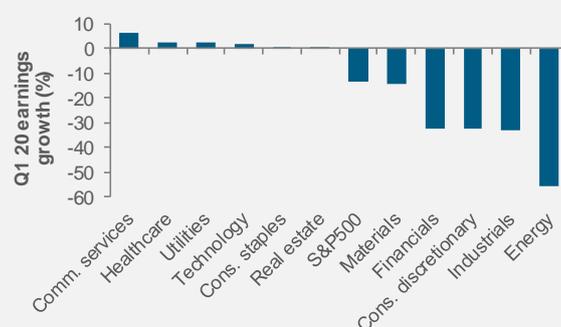
Gold has rallied around ~15% YTD. We have highlighted before that when markets turn illiquid, gold's safe-haven properties could temporarily suffer as the precious metal is sold to raise cash to fund losses elsewhere. As extreme volatility fades and some normalcy has returned to markets, gold and risk assets have broadly stabilised.

In our assessment, real (ie. net of inflation) yields, which represent the opportunity cost to owning gold, remain a key driver. With inflation expectations also expected to rebound as oil prices bottom, real yields will likely remain contained in light of the Fed's unprecedented measures to keep yields low. This should support higher gold prices.

We retain gold as a preferred asset and continue to advocate adding exposure on dips. Long investor positioning and technical indicators are both looking stretched, which suggests gold could correct in the near-term. This would present us with an attractive opportunity to add exposure to the precious metal at levels between 1590 – 1650.

Consensus estimates for US Q1 earnings show the energy and industrial sectors are likely to see the biggest drop in earnings, while healthcare and technology sectors remain resilient

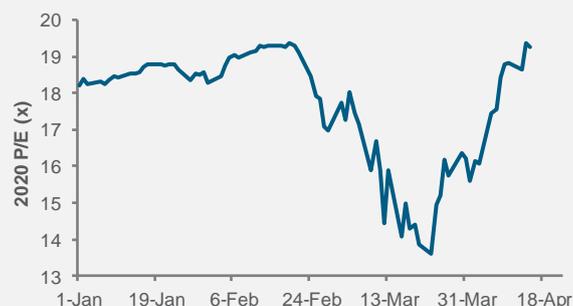
Consensus estimates for US Q1 earnings, by sector, % y/y



Source: Refinitiv; Standard Chartered

US equity market valuations have rebounded sharply as risk sentiment revised. This followed stimulus measures and earnings estimate downgrades

S&P500 index forward P/E ratio, based on 2020 earnings estimates



Source: FactSet; Refinitiv; Standard Chartered

Technical indicators for gold are looking stretched; correction towards 1590-1650 would present an opportunity to add exposure, in our view

Gold price and 14-day Relative Strength Index



Source: Bloomberg; Standard Chartered

## Top client questions (cont'd)

### Q Is it time to buy EM currencies?

The USD has been relatively stable against major currencies and is continuing a peaking process following a massive Fed liquidity provision via swap and repo facilities, in our view. However, it may be a little early to buy Emerging Market (EM) currencies as they may not benefit as much from a weaker USD despite cheap historic valuations.

USD/SGD is supported above 1.40 as the global recovery is likely to be slow. Lockdowns are still in place and emergence is expected to be gradual. CNH stability could limit SGD weakness. However, we believe the uptrend in USD/SGD will dominate in the near term targeting 1.46 (see our recently published bullish USD/SGD FX Alert).

USD/INR has broken above 76.50 to a new all-time high. The lockdown in India is causing economic stress, and with the RBI actively buying government debt, yields are likely to fall further. Fiscal stimulus is also straining the budget deficit. Even with low oil prices, the INR has continued to weaken. We expect USD/INR to move towards the 78.00 level, with strong support around 75.00-75.50.

USD/ZAR had a brief correction from a fresh all-time high above 19.30, but the pair is likely to push higher again. Weak global and domestic growth, falling interest rates and a worsening budget deficit remain concerns. The recent sovereign credit rating downgrade and ongoing challenges with a key energy company are also risks. We expect USD/ZAR to re-test the recent high. A break higher targets the 20.00 level next as the 17.30-17.80 support holds.

### Q What is the impact of the Fed's extended bond buying programme on the HY bonds market?

Late last week, the Fed announced an increase in the scope and size of its corporate credit support facilities. A key decision was the inclusion of 'fallen angels' (bonds rated IG till 22 March, but subsequently downgraded to HY with a rating above BB-) in eligible purchases. Additionally, the Fed announced that it would start buying HY ETFs.

The direct impact on HY bonds is likely limited as (i) ETFs account for <5% of the HY bond market, and (ii) the programme only includes provisions to directly buy 'fallen angels', not weaker (eg. B or CCC rated bonds) bonds which usually face a higher likelihood of default.

Nevertheless, the announcement has buoyed market sentiment, with HY yield premiums nearly 150bps lower over the past week. However, yield premiums back in the 700bps range indicates a lot of good news may now be in the price. Hence, we do not see very attractive compensation at these levels for the likely rise in default rates. Thus, we continue to view Developed Market (DM) HY bonds as a core holding. Instead, we continue to view Asian and EM USD government bonds as preferred.

**Uptrend in USD/SGD is likely to sustain in the near-term, with 1.46 as the next target**



Source: Refinitiv, Standard Chartered

**USD/INR broke above 76.50 to a record high as the extension of the lockdown adds to economic stress**



Source: Refinitiv, Standard Chartered

**Corporate bonds gained across the board; US bonds benefitted from Fed's plans to buy Investment Grade and some High Yield debt**

Benchmark market performance w/w\*

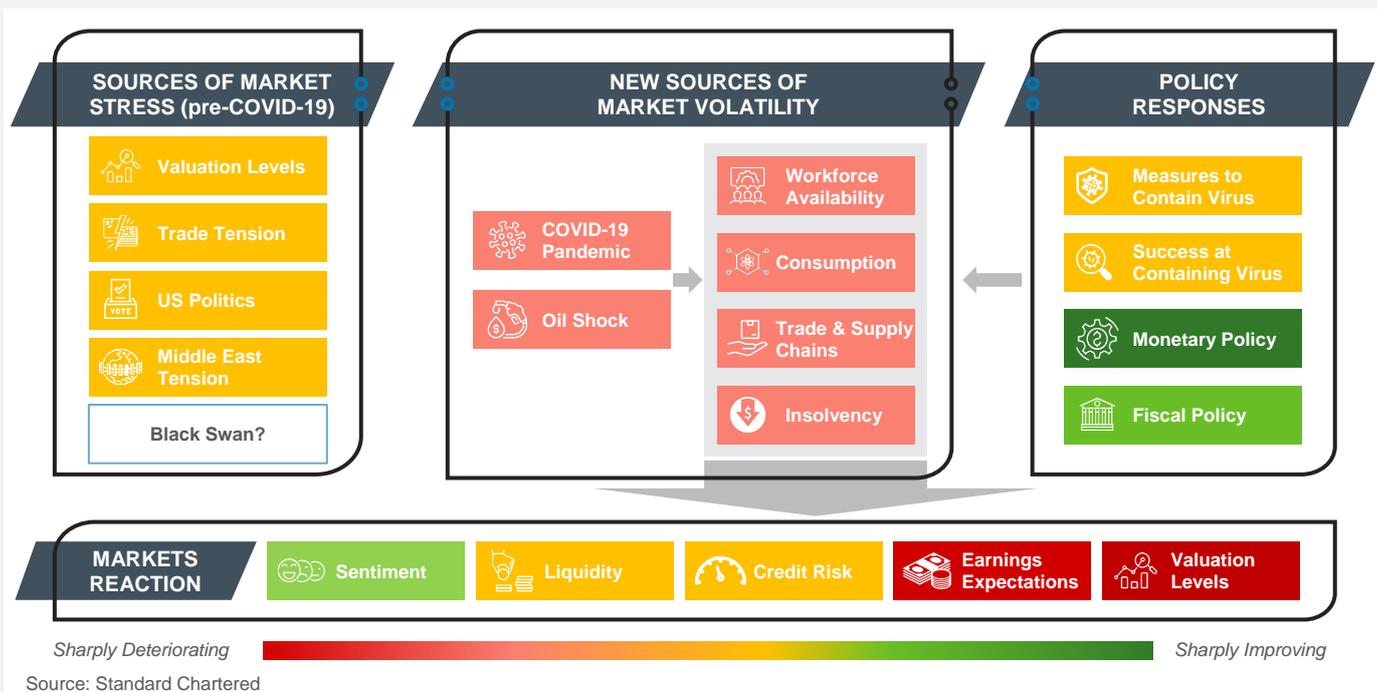


Source: Bloomberg; Standard Chartered

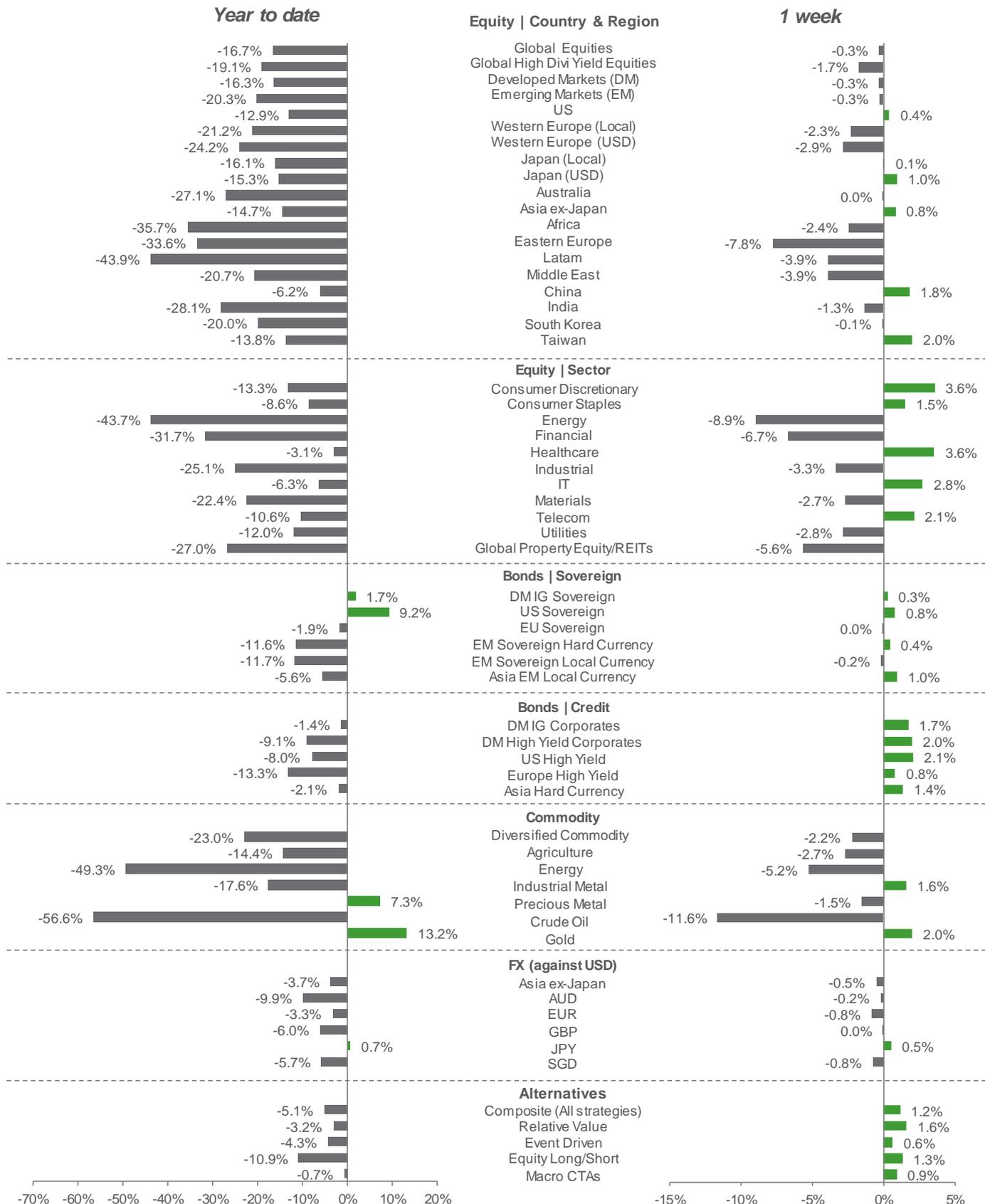
\*Week of 09 April 2020 to 17 April 2020

## What we are watching

As the number of new COVID-19 cases slow, plans to relax lockdown measures in the coming weeks are positive for the revival of economic activity. If this trend is sustained, we could see an end to the cycle of economic and corporate earnings downgrades. Additional monetary and fiscal stimulus measures in the EU, the US and China suggest policymakers remain committed to doing “whatever it takes” to prevent the short-term liquidity crisis from evolving into a solvency crisis. The Fed’s measures to buy corporate bonds, including some High Yield (HY) debt, relieves the stress on the sector. The risk to this constructive outlook is a second wave of the pandemic forcing authorities to re-impose lockdowns, thus delaying economic and corporate earnings recovery. Equity market valuations have turned expensive following the recent rebound, which coincided with downgrades to earnings expectations.



## Market performance summary\*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

\*Performance in USD terms unless otherwise stated, 2019 performance from 31 December 2019 to 16 April 2020, 1 week period: 09 April 2020 to 16 April 2020

## Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	JN	Exports y/y	20-Apr-2020	Mar	-11.4%	-1.0%
TUE	EC	ZEW Survey Expectations	21-Apr-2020	Apr	–	-49.5
	US	Existing Home Sales	21-Apr-2020	Mar	5.39m	5.77m
WED	UK	CPI Core y/y	22-Apr-2020	Mar	–	1.7%
	EC	Consumer Confidence	22-Apr-2020	Apr A	–	-11.6
THUR	UK	Retail Sales Ex Auto Fuel y/y	23-Apr-2020	Mar	–	0.5%
	GE	Markit/BME Germany Composite PMI	23-Apr-2020	Apr P	–	35
	EC	Markit Eurozone Composite PMI	23-Apr-2020	Apr P	–	29.7
	US	Initial Jobless Claims	23-Apr-2020	18-Apr	–	–
	US	Markit US Composite PMI	23-Apr-2020	Apr P	–	40.9
	US	New Home Sales	23-Apr-2020	Mar	661k	765k
FR/SAT	JN	Natl CPI Ex Fresh Food, Energy y/y	24-Apr-2020	Mar	0.6%	0.6%
	GE	IFO Expectations	24-Apr-2020	Apr	–	79.7
	US	Cap Goods Orders Nondef Ex Air	24-Apr-2020	Mar P	-3.3%	-0.9%
	US	Durable Goods Orders	24-Apr-2020	Mar P	-11.0%	1.2%

	Event	This Week	Date	Period	Actual	Prior
MON	IN	CPI y/y	13-Apr-2020	Mar	5.9%	6.6%
TUE	CH	Exports y/y	14-Apr-2020	Mar	-6.6%	–
WED	US	Retail Sales Ex Auto and Gas	15-Apr-2020	Mar	-3.1%	-0.2%
	US	Industrial Production m/m	15-Apr-2020	Mar	-5.4%	0.5%
	CA	Bank of Canada Rate Decision	15-Apr-2020	15-Apr	0.25%	0.25%
	IN	Exports y/y	15-Apr-2020	Mar	-34.6%	2.9%
THUR	US	Building Permits	16-Apr-2020	Mar	1353k	1452k
	US	Housing Starts	16-Apr-2020	Mar	1216k	1564k
	US	Philadelphia Fed Business Outlook	16-Apr-2020	Apr	-56.6	-12.7
FR/SAT	CH	GDP y/y	17-Apr-2020	1Q	-6.8%	6.0%
	CH	Industrial Production y/y	17-Apr-2020	Mar	-1.1%	-13.5%*
	CH	Retail Sales y/y	17-Apr-2020	Mar	-15.8%	-20.5%*
	CH	Fixed Assets Ex Rural YTD y/y	17-Apr-2020	Mar	-16.1%	-24.5%*
	US	Leading Index	17-Apr-2020	Mar	–	0.1%

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue; \*refers to Jan-Feb 2020 combined data

Previous data are for the preceding period unless otherwise indicated

Data are % change on previous period unless otherwise indicated

P - preliminary data, F - final data, sa - seasonally adjusted

y/y – year-on-year, m/m - month-on-month

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